

**STATE OF MICHIGAN
DEPARTMENT OF LABOR & ECONOMIC GROWTH
OFFICE OF FINANCIAL AND INSURANCE REGULATION**

Before the Commissioner of the Office of Financial and Insurance Regulation

In the matter of:

**Diversified Lending Group, Inc.
15260 Ventura Boulevard, Suite 1240
Sherman Oaks, CA 91403**

Enforcement Case No. 08-6917

Respondent

_____ /

Issued and entered
on 11/21 2008
by Stephen R. Hilker
Chief Deputy Commissioner

ORDER TO CEASE AND DESIST

The Office of Financial and Insurance Regulation of the Michigan Department of Labor and Economic Growth, pursuant to the Michigan Administrative Procedures Act of 1969, MCL 24.201 *et. seq.*, (hereafter "MAPA") and the Michigan Uniform Securities Act, as amended, MCL 451.501 *et. seq.*, (hereafter "Act"), and the rules promulgated under the Act, say that:

FINDINGS OF FACT AND CONCLUSIONS OF LAW

The staff of the Office of Financial and Insurance Regulation (hereafter "OFIR") alleges that the following facts are true and correct:

1. OFIR is responsible for the licensing and regulation of securities and enforcement of the provisions of the Michigan Uniform Securities Act, ("Act.")
2. OFIR has received information regarding the sales of unregistered securities by Diversified Lending Group, Inc. (hereafter "DLG" or "Respondent.")
3. Respondent is a closely held California Corporation incorporated on or about May 18, 2004.
4. Bruce Friedman is the Chief Executive Officer and sole shareholder of Respondent.
5. According to Respondent it's primarily business involves the acquisition, rehabilitation and operation of income producing real estate. Respondent also engages in transactions involving real estate lending, life insurance premium financing, and financial services.

6. The capital for Respondent's investment activities comes primarily from owner investments, retained earnings, and an investment pool.
7. The assets in the investment pool are provided by private investors, trusts and pensions. Respondent borrows funds from investors and agrees to repay investors all of their principal amounts, plus an additional stated rate of return. Respondent invests these funds in various transactions, such as real estate acquisitions.
8. Respondent's objective is to earn income from the investment pool by generating a positive spread between its borrowing costs, on the one hand, and its return on investments, on the other hand.
9. Applied Equities, Inc. ("AEI") is a closely held California corporation that was incorporated on or about August 3, 2001, which is a financial and insurance marketing firm, and the investment servicing division of Respondent. Respondent acquired AEI in 2004 and AEI is a wholly-owned subsidiary of Respondent.
10. Beginning in March of 2007, Michigan residents began investing in Respondent's "investment pool." According to Respondent, the investment pool works as follows:

DLG borrows funds from the Pool Participants and promises to repay all principal plus an additional rate of return of either 9% or 12%. (The rate is 12% unless the Pool Participant opts to further support DLG's promise to repay principal with an A+ rated national life insurance company, in which case the rate is 9%.) Pool Participants can also choose whether to lend money to DLG for a one year or five year term. DLG invests the funds from the Pool Participants in real property and other transactions with the objective of earning more on those transactions than its cost of borrowing from the Pool Participants.

11. Respondent's Investment Pool is promoted in a brochure of AEI as a way an investor can use the equity in their home (through a mortgage refinance) to invest in the DLG investment pool to earn enough money to fund the purchase of an insurance policy and pay off the mortgage taken out for the investment.
12. Section 401(z) of the Act defines a "security" to include any note, bond, or evidence of indebtedness. A "security" also includes any contractual or quasi contractual arrangement pursuant to which:
 - a. A person furnishes capital, other than services, to an issuer;
 - i. Respondent's investor list showing funds furnished by Michigan residents.
 - b. A portion of that capital is subjected to the risks of the issuer's enterprise;

- i. In Respondent's July 2007 Information Circular under Real Estate Program Objectives it states: "We cannot assure you that we will achieve these objectives or that your capital will not decrease."
 - ii. In Respondent's July 2007 Information Circular under Management's Discussion and Analysis of Risk Factors it states: "There are risks associated with investing in 'the Fund,' [Respondent] most of which 'The Company' [Respondent] does not control, such as trends in the economy, general interest rates, income tax laws, governmental regulations, and the availability of satisfactory investment opportunities... The Fund is not guaranteed and past performance may not be repeated."
 - iii. In Respondent's December 31, 2007 and February 29, 2008 newsletter it states: "The Fund is not guaranteed and past performance may not be repeated."
- c. The furnishing of that capital is induced by the representations of an issuer, promoter, or their affiliates which give rise to a reasonable understanding that a valuable tangible benefit will accrue to the person furnishing the capital as a result of the operation of the enterprise;
- i. On Respondent's Investor Application and Investor Application for Qualified Funds, investors are required to check a box labeled "Secured 12% Yield" or "Principal Reinsured 9% Yield."
 - ii. On Respondent's Investment Pool Contracts, a "Minimum Guaranteed Rate" is specifically listed.
- d. The person furnishing the capital does not intend to be actively involved in the management of the enterprise in a meaningful way; and
- i. In Respondent's July 2007 Information Circular under Real Estate Program Policies and Guidelines it states: "'The Company' [Respondent] will have absolute discretion with respect to the selection of specific investments."
 - ii. In Respondent's July 2007 Information Circular under Disposition it states: "'The Company' [Respondent] will have absolute discretion as to whether and when to sell a property, and we will have no obligation to sell properties at any particular time."
- e. A promoter or its affiliates anticipate, at the time the capital is furnished, that financial gain may be realized as a result thereof.
- i. Respondent through its attorney stated in its June 3, 2008 response "DLG's objective is to earn income from the investment pool by generating a positive spread between its borrowing costs, on the one hand, and its return on investments, on the other hand."

13. Respondent further knew or had reason to know that Section 301 of the Act, MCL 451.701, makes it unlawful for a person to offer or sell any security in the State of Michigan unless the security is: 1) registered under the Act, 2) an exempt security or transaction under Section 402 of the Act, or 3) a federally covered security.
14. Respondent further knew or had reason to know that Section 401(z) of the Act, MCL 451.801(z), defines a "security" which includes the investment pool or investment note program offered by Respondent.
15. Respondent further knew or had reason to know that Section 402(c) of the Act, MCL 451.802(c), provides that in any proceeding under this act, the burden of proving an exemption or an exception from a definition is upon the person claiming it.

WHEREAS, Section 408 of the Act, MCL 451.808, states that whenever it appears to the Administrator (Commissioner of the Office of Financial and Insurance Regulation) that any person has engaged or is about to engage in any act or practice constituting a violation of any provision of this act or any rule or order hereunder, it may in its discretion issue a cease and desist order or bring an action in a circuit court to enjoin the act or practices and to enforce compliance with this act or any rule or order hereunder; and

WHEREAS, Respondent offered and sold securities, i.e., the investment pool or investment note program to Michigan residents; and

WHEREAS, the investment pool or investment note program offered by Respondent, meets the definition of a security, as defined and listed in Section 401(z) of the Act, MCL 451.801(z); and

WHEREAS, Section 301 of the Act, MCL 451.701, provides that it is unlawful for any person to offer or sell any security in Michigan unless the security is: registered under the Act, the security or transaction is exempt under Section 402 of the Act, MCL 451.802, or the security is a federally covered security; and

WHEREAS, the securities offered and sold by Respondent do not meet any of the requirements listed in Section 301 of the Act, MCL 451.701; and

WHEREAS, Respondent therefore offered and sold securities in the State of Michigan in violation of Section 301 of the Act, MCL 451.701; and

WHEREAS, the Administrator finds this Order necessary and appropriate in the public interest, for the protection of investors, and consistent with the purposes fairly intended by the policy and provisions of the Act; and

WHEREAS, the Administrator retains the right to pursue further administrative action against the Respondent should the Administrator determine that such action is necessary and

appropriate in the public interest, for the protection of investors, and consistent with the purposes fairly intended by the policy and provisions of the Act; and

WHEREAS, based on the foregoing, OFIR Staff recommends that the Administrator find that Respondent has engaged in acts and practices that violate Section 301 of the Act, MCL 451.701.

ORDER

IT IS THEREFORE ORDERED, pursuant to Section 408 of the Act, MCL 451.808, and Section 409 of the Act, MCL 451.809, that:

1. Respondent shall immediately **CEASE AND DESIST** from violating Section 301 of the Act, MCL 451.701.
2. Based upon Respondent's violations of the Act and because the Administrator finds that it would be in the public interest, any exemptions under Section 402(a)(1), (6), (7), (8), (9), (10), and 402(b) of the Act, MCL 451.802(a)(1), (6), (7), (8), (9), (10), and 451.802(b) for which Respondent might qualify, are hereby summarily denied or revoked for all purposes provided under Section 408(c) of the Act, MCL 451.808(c) including but not limited to Respondent's right to engage in transactions otherwise exempt under Section 402(b) of the Act, MCL 451.802(b) in the future absent compliance with the registration provisions of the Act.
3. Respondent shall provide notice to all citizens of the State of Michigan, whether individuals or business organizations (the "Michigan Investors"), that purchased or participated in the investment pool or investment note program offered by Respondent, informing them that these securities were offered in violation of Section 301 of the Act, MCL 451.701, because the securities were not registered under the Act, the security or transaction was not exempt under Section 402 of the Act, MCL 451.802, or the security was not a federally covered security. The notice shall further inform the Michigan Investors that upon the investor's request and tender of the securities back to Respondent, Respondent will refund the consideration paid for such securities, together with costs and interest at the rate of 6% per year from the date of payment, less the amount of income received on the security, as provided by Section 410(a) of the Act, MCL 451.810(a). In the event that the Michigan Investor no longer owns the securities, Respondent shall refund the amount that would be payable upon tender as set forth above, less the value of the security when the investor disposed of it, together with interest at the rate of 6% per year from the date of disposition. The notice containing the rescission offer shall be accompanied by documents making full written disclosure about Respondent's financial, business condition, and the financial and business risks associated with the retention of the securities. The notice must additionally provide the Michigan Investors at least thirty (30) days from the date of receipt in which to accept or reject the rescission offer. Respondent shall obtain OFIR's approval of the notice containing the rescission offer and accompanying disclosure documents before providing them to the Michigan Investors.

4. Upon the acceptance of the rescission offer and tender-back of the security by any Michigan Investor, Respondent shall remit any amount due and owing to the Michigan Investors within the time frame set forth in the rescission notice referenced above.
5. Respondent shall pay to the State of Michigan a civil fine of Ten Thousand Dollars (\$10,000.00) by the due date listed on the Invoice.

Failure to comply with this ORDER may subject you to a criminal penalty of not more than \$25,000 for each violation, or imprisonment of not more than 10 years, or both.

You may file with the Administrator within 15 days after service of this Order a written request for a hearing. The Administrator, within 15 days after your filing, shall issue a notice of hearing and set a date for the hearing. Any request for a hearing should be addressed to: the Office of Financial and Insurance Regulation, Attention: Hearing Coordinator Dawn Kobus, P.O. Box 30220, Lansing, Michigan 48909.

If you do not request a hearing, or it is not ordered by the Administrator within 15 days, this Order will stand as entered and will be FINAL.

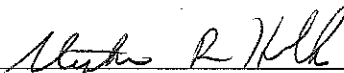
It is important to understand that any statements that you present in response to this Order may be used against you at a hearing. It is also important to understand that you have the right, at your own expense, to have an attorney assist you at a hearing.

The Administrator retains the right to pursue further administrative action against the Respondent should the Administrator determine that such action is necessary and appropriate in the public interest, for the protection of investors, and consistent with the purposes fairly intended by the policy and provisions of the Act.

Any other communication regarding this Order should be addressed to the Office of Financial and Insurance Regulation, Attention: William R. Peattie, P.O. Box 30220, Lansing, Michigan 48909.

OFFICE OF FINANCIAL AND
INSURANCE REGULATION

By:



Stephen R. Hilker
Chief Deputy Commissioner